



The Pakistan Credit Rating Agency Limited

## Rating Report

### Matracon Pakistan (Pvt.) Limited

#### Report Contents

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Apr-2024	BBB	A2	Stable	Maintain	Yes
10-Oct-2023	BBB	A2	Stable	Maintain	Yes
14-Apr-2023	BBB	A2	Stable	Maintain	-
20-Apr-2022	BBB	A2	Stable	Maintain	-
29-Apr-2021	BBB	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Matracon Pakistan is in business since 1996 and is a big name in the construction industry. It has delivered many public and private projects since its inception. Matracon embarks upon large infrastructure projects in collaboration with different international JV partners including Chinese, which in their own right are established institutions. Matracon was originally focused on roads construction and drainage systems, but recently the Company is focusing on designing buildings. During 1HFY23 the Company posted a topline of PKR 5.67bln as against PKR 5.56bln in 1HFY22. However, margins have improved in the period under review reported to be 19% as against 10% in SPLY. The growth in margins is due to the realization of revenue of the projects whose construction was completed in FY22. However, the slowdown in the progress of the projects and recoveries was witnessed due to the upsurge in basic raw material prices and increased policy rates. The Company has requested the cost escalation against the already-in-hand projects, the negotiations of which are under way. Adding new projects in current project bank remains imperative for the ratings. The business funding needs are met by non-funded lines of banks. Equity base of Matracon is adequate especially when compared with the non-funded obligations assumed by the Company.

The ratings are dependent on the long-term sustainability of the business and its financial structure; sustaining a steady revenue stream and timely completion of projects without any significant cost and time overruns. During the period under review, Ratings are maintained keeping in view operational projects that are ensuring revenue stream for the next financial year however, rating watch depicts dried up pipeline of projects. To improve the Ratings, strengthening of projects pipeline and collection efficiency, as projected, will remain crucial. Any prolonged downturn in subdued business volume can have a detrimental effect on the ratings. Improvement in governance and control environment is also important and needs to be strengthened.

#### Disclosure

<b>Name of Rated Entity</b>	Matracon Pakistan (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jul-23),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Rating Modifiers(Apr-23)
<b>Related Research</b>	Sector Study   Construction(Mar-23)
<b>Rating Analysts</b>	Anam Waqas Ghayour   anam.waqas@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Matracon Pakistan Pvt. Ltd. (hereinafter referred to as "the Company" or "Matracon Pak") is a Private Limited Company (unquoted) incorporated in 2006.

**Background** Mr. Abdul Qadir established Matracon Pak with an ambitious plan after having entrepreneurial experience of years, established the Company as sole proprietorship in 1995, in Quetta but later the initial business was closed and new office was developed in Lahore under the name of "Matracon Pakistan".

**Operations** Matracon Pak mainly confined their business activities with several commercial / residential building complexes in Pakistan, water supply work comprising large diameter pipelines, bridges, roads, siphons, canal regulators, airport facilities, factories, office buildings, pre-fabricated structure and other civil engineering works. In view of the expanding business and aspirations of international exposure, Matracon Pak was transformed into 'Private Limited Company'.

## Ownership

**Ownership Structure** Matracon Pakistan Pvt. Ltd is mainly owned and managed by the Chief Executive, Mr. Muhammad Abdul Qadir, with 75% ownership stake while the remaining 25% shares are owned by his father, Mr. Muhammad Ayub.

**Stability** Matracon Pak is majority owned by M.Qadir but it needs to have a formal succession planning in order to ensure that future prospects are taken care of in the hour of need.

**Business Acumen** The business acumen of the partner is considered adequate.

**Financial Strength** The Company is entirely equity financed and if in the future need arises, the JV collaborations are all with Chinese companies, namely JICS (Japan International Cooperation System), ACEG (Anhui Construction Engineering Group) CCEC (China Civil Engineering Construction Corp) etc. These international collaboration shows the Company's interest in creating associations with reputable foreign companies.

## Governance

**Board Structure** The Company has a three-member board. The overall governance matters are overseen by Mr. Muhammad Abdul Qadir along with his father Mr. Muhammad Ayub. Matracon Pak needs to include more people from diversified backgrounds on the board so that the strategic matters and governance matters of the Company are looked after properly.

**Members' Profile** The CEO - Mr. Jehanzaib Saulat, has taken over Mr. Abdul Qadir as Chief Executive of the Company during the year. Previously, he has been working in the capacity of project manager at the same Company. Mr. Abdul Qadir & Mr. Ayub has been associated with the Board since the Company's incorporation.

**Board Effectiveness** The Company has a board meeting quarterly and the minutes are not available. Board committees are not properly formed and there is technically single ownership and one person board means weak effectiveness.

**Financial Transparency** There is a change in external auditor. Clarkson Hyde Pakistan is the now providing auditing services. Previously, Crowe Hussain Chaudhury & Co Chartered Accountants was the external auditor of the company. The auditor has expressed an unqualified opinion on Matracon Pakistan Pvt. Ltd.'s financial statements for the year ended June, 30th 2022. Management also prepare accounts on half yearly basis.

## Management

**Organizational Structure** Matracon Pak. is working with six key functions namely (i) Finance, (ii) Marketing, (iii) Admin & HR, (iv) IT (v) Engineering, (vi) Procurement, reporting to the MD. Each division is working with whole team including technical staff & senior managers reporting to their respective GMs

**Management Team** Mr. Jehanzaib Saulat - CEO and director of M/s Gammon Pakistan Limited represent M/s Gammon Pakistan Ltd is the execution lead who oversees the business and all the matters pertaining to local clients. Mr. Khawar Mustafa – CFO, has joined the company during the year and looks after the matters pertaining to administration and finance including credit, liaison with banks, and Letters of Credits (LCs).

**Effectiveness** Since the company has a lean and structured organizational structure with the sponsors looking after the day-to-day operations, Matracon needs to have formal management committees in place which can monitor performance and assure adherence to the policies and procedures.

**MIS** Matracon is currently using customized accounting software from 'Intuit' Quickbooks Enterprise Solutions for its bookkeeping and accounting needs.

**Control Environment** The Company adheres to strict quality control standards as it is certified under ISO 9001:2005 which is also the need of the construction industry.

## Business Risk

**Industry Dynamics** An increase in private investment and public development spending resulted in pick-up in the construction sector i.e., 3.1 percent in FY22. compared to 2.5 percent a year earlier. In particular, considerable provincial development expenditure was channeled into infrastructure projects, such as the construction of roads and transport services across Sindh and Punjab. However, the slowdown in construction activities was also partly attributed to the rising prices of cement in the domestic market. Specifically, the price of cement rose by 28 percent on average during FY22, compared to 3.1 percent in FY21. By extension, the elevated domestic prices could be traced to a combination of rising global prices of inputs such as coal, steel, wood, glass as well as the PKR depreciation.

**Relative Position** Out of the 10,000+ firms registered with Pakistan Engineering Council as Constructors / Operators, only ~100 (1%) hold the prestigious CA category (no limit) license. Matracon Pakistan Pvt. Ltd., holding the CA category license caters to the needs of the niche market.

**Revenues** Matracon, in recent years, has witnessed a consistent decrease in its revenues, primarily due to slowdown in the economy and political instability. During 1HFY23, the revenues clocked at PKR 5,675mln (1HFY22: PKR 5,564mln). During 1HFY23, the entity's revenues witnessed a ~21% decrease on a period basis. (FY21: 9.98bln, FY20: 6.5bln; FY19: PKR 4.3bln; FY18: PKR 3.6bln).The Company has reported a slow growth in revenues which is in line with the industry trend as there was a halt in infrastructural activities experienced due increase in cost of raw materials and energy prices.

**Margins** During 1HFY23 escalation in cost of production including raw material and energy prices have contributed to decreased gross margins (1HFY23: 19.5%; 1HFY22: 10.2%; 1HFY21: 17.1%). Operating margin stayed in line with the gross margin trend on the back of segregation of the administrative expenses (1HFY23: 18.9%; 1HFY22: 9.7%; 1HFY21: 10.1%). In 1HFY23, finance charges were approximately PKR 58mln (FY22: PKR 55mln). The Company managed to report profits for the period (1HFY23: PKR 767mln, 1HFY22: PKR 252mln; 1HFY21: PKR 162mln).

**Sustainability** The Company's management furnished reliable budgets and forecasts which reflects the strategy of the management and viability of the design path to reach the goal. Sustainability of the Company depends on securing new projects and getting funds of the execution.

## Financial Risk

**Working Capital** For working capital needs, which is a function of inventory and receivables, a company relies on both internal robust and sustained cash flow stream. Over the periods, the company has reported decreasing tendency in reported operational cashflows (EBITDA- 1HFY23: PKR 1,242mln, 1HFY22: PKR 530mln; 1HFY21: PKR 573mln). On account of reduced cashflows and increased cost of production of ongoing projects, company's net cash cycle is portraying deteriorated position (1HFY23: 64days, 1HFY22: 34days, 1HFY21: 22days).

**Coverages** Matracon Pakistan Pvt. Ltd acquired interest bearing bank guarantees on short term basis. The company has demonstrated remarkable growth in its operating cashflows over the period. During 1HFY23, Company's operating cashflows (FCFO) decreased to PKR 839mln (1HFY22: PKR 530mln; 1HFY21: PKR 233mln), on back of declining growth in profitability. While current ratio stood at 7.0x on account of higher proportion of holding cash during the period of 1HFY23 (1HFY22: 4.0x; 1HFY21: 1.8x).

**Capitalization** At end of Dec'22, the Company had totally equity financed capital structure as compared to previous year with a debt to debt plus equity ratio of 0% (1HFY22: 7.3%; 1HFY21: 14.5%). Loan from directors which was non-interest-bearing arrangement, had also been paid-off completely.



Matracon Pakistan Construction	Jun-22 12M	Jun-21 12M	Jun-20 12M	Jun-19 12M
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#### A BALANCE SHEET

1 Non-Current Assets	1,831	1,722	1,834	1,401
2 Investments	526	526	526	1,060
3 Related Party Exposure	-	-	-	-
4 Current Assets	4,893	3,298	3,230	2,084
a Inventories	1,834	498	802	801
b Trade Receivables	194	194	510	427
<b>5 Total Assets</b>	<b>7,251</b>	<b>5,546</b>	<b>5,590</b>	<b>4,545</b>
6 Current Liabilities	772	1,019	1,852	1,091
a Trade Payables	-	70	830	492
7 Borrowings	-	-	-	-
8 Related Party Exposure	33	340	340	370
9 Non-Current Liabilities	2,302	547	1,767	1,549
<b>10 Net Assets</b>	<b>4,144</b>	<b>3,640</b>	<b>1,632</b>	<b>1,535</b>
<b>11 Shareholders' Equity</b>	<b>4,144</b>	<b>3,640</b>	<b>1,632</b>	<b>1,535</b>

#### B INCOME STATEMENT

1 Sales	14,393	9,984	6,546	4,300
a Cost of Good Sold	(12,719)	(7,422)	(5,502)	(3,654)
<b>2 Gross Profit</b>	<b>1,674</b>	<b>2,562</b>	<b>1,044</b>	<b>646</b>
a Operating Expenses	(89)	(44)	(467)	(276)
<b>3 Operating Profit</b>	<b>1,584</b>	<b>2,518</b>	<b>577</b>	<b>370</b>
a Non Operating Income or (Expense)	-	(8)	12	3
<b>4 Profit or (Loss) before Interest and Tax</b>	<b>1,584</b>	<b>2,510</b>	<b>588</b>	<b>373</b>
a Total Finance Cost	(55)	(3)	-	-
b Taxation	(1,026)	(499)	(491)	(323)
<b>6 Net Income Or (Loss)</b>	<b>503</b>	<b>2,008</b>	<b>97</b>	<b>51</b>

#### C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	648	2,145	251	143
b Net Cash from Operating Activities before Working Capital Changes	648	2,145	251	143
c Changes in Working Capital	(1,762)	492	215	(435)
<b>1 Net Cash provided by Operating Activities</b>	<b>(1,113)</b>	<b>2,636</b>	<b>466</b>	<b>(292)</b>
<b>2 Net Cash (Used in) or Available From Investing Activities</b>	<b>(255)</b>	<b>(25)</b>	<b>(53)</b>	<b>(561)</b>
<b>3 Net Cash (Used in) or Available From Financing Activities</b>	<b>1,439</b>	<b>(1,220)</b>	<b>187</b>	<b>970</b>
<b>4 Net Cash generated or (Used) during the period</b>	<b>71</b>	<b>1,392</b>	<b>600</b>	<b>117</b>

#### D RATIO ANALYSIS

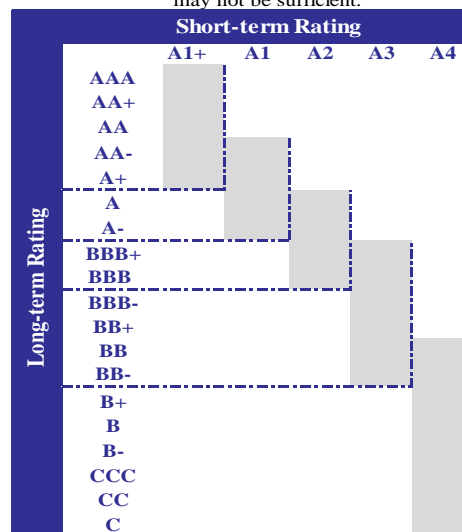
<b>1 Performance</b>				
a Sales Growth (for the period)	44.2%	52.5%	52.2%	19.3%
b Gross Profit Margin	11.6%	25.7%	15.9%	15.0%
c Net Profit Margin	3.5%	20.1%	1.5%	1.2%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-7.7%	26.4%	7.1%	-6.8%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Asset / Equity)]	12.9%	76.2%	6.2%	3.4%
<b>2 Working Capital Management</b>				
a Gross Working Capital (Average Days)	34	37	71	82
b Net Working Capital (Average Days)	33	20	34	45
c Current Ratio (Current Assets / Current Liabilities)	6.3	3.2	1.7	1.9
<b>3 Coverages</b>				
a EBITDA / Finance Cost	N/A	N/A	N/A	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	N/A	N/A	N/A	N/A
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Co.)	0.0	0.1	1.2	2.3
<b>4 Capital Structure</b>				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	0.0%	7.8%	15.8%	18.0%
b Interest or Markup Payable (Days)	N/A	N/A	N/A	N/A
c Entity Average Borrowing Rate	0.0%	0.0%	0.0%	0.0%

### Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	<b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB	
BBB-	
BB+	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	<b>Very high credit risk.</b> Substantial credit risk "CCC" Default is a real possibility.
CC	Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



\*The correlation shown is indicative and, in certain cases, may not hold.

**Outlook (Stable, Positive, Negative, Developing)** Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

**Suspension** It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):  
 a) Broker Entity Rating  
 b) Corporate Rating  
 c) Debt Instrument Rating  
 d) Financial Institution Rating  
 e) Holding Company Rating  
 f) Independent Power Producer Rating  
 g) Microfinance Institution Rating  
 h) Non-Banking Finance Companies Rating

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### **Rating Team Statements**

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

### **2) Conflict of Interest**

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

### **Restrictions**

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

### **Conduct of Business**

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

### **Independence & Conflict of interest**

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

### **Monitoring and review**

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 17-(d)

### **Probability of Default**

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

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